

**2015-2016 PROPOSED BUDGET
RESPONSE TO REQUEST FOR INFORMATION**

DEPARTMENT: Austin Energy and Austin Water

REQUEST NO.: 67

REQUESTED BY: Gallo

DATE REQUESTED: 07/23/15

DATE POSTED: 07/29/15

REQUEST: Please provide the Quick Ratios for Austin Energy and Austin Water. Include in your response any City of Austin policy requirements related to Quick Ratios.

RESPONSE:

The Quick Ratio is a financial performance ratio which measures the dollar amount of liquid assets available for each dollar of current liabilities. The ratio is an indicator of an entity's short-term liquidity, or their ability to meet its short-term obligations with its most liquid assets. Therefore, a Quick Ratio of 1.5 means an entity has \$1.50 of liquid assets available to cover each \$1.00 of current liabilities. The higher the Quick Ratio above 1.0, the better. The calculation of the Quick Ratio is total current assets, less inventory, divided by total current liabilities.

The City's Council approved financial policies for Austin Water (AW) state that a minimum quick ratio of 1.50 shall be maintained. The source of the calculation is the City's Comprehensive Annual Financial Report (CAFR). For fiscal year ended September 30, 2014, AW's quick ratio was 1.49.

The major component impacting the ratio for AW in 2014 is the lower than normal operating fund cash balances, especially for the water utility fund, which is a result of decreased water consumption and enhanced water conservation efforts due to the severe drought conditions during fiscal year 2014 and previous years. AW monitors the drought conditions closely and has taken action to increase low water fund cash balances with Council approved rate increases and water rate structural changes. Additionally, AW recently transacted a debt refinancing structure saving the utility \$73.5 million in debt service costs over the next 5 years. These debt service savings will aid in the recovery of key financial metrics used by rating agencies which include the debt service coverage, cash balances in days of operations and maintenance, and the quick ratio.

Components of current assets include: cash, pooled investments and cash, investments at fair value, accounts receivable less allowance for doubtful accounts, miscellaneous receivables, prepaid expenses, deferred costs and expenses net of amortization, and inventories at cost. Components of current liabilities include: accounts and retainage payable, accrued payroll and compensated absences, accrued interest payable on restricted assets and on other debt, short-term bonds payable, customer and escrow deposits payable, and deferred credits and other liabilities. Of these components, the two largest current assets that can impact the ratio calculation are cash and

accounts receivable less allowance for doubtful accounts. The largest current liabilities that can impact the ratio calculation are interest and short-term bonds payable.

Austin Water's Quick Ratio Calculation (\$ in Thousands)

\$288,500	Total Current Assets	\$192,979	Total Current Liabilities
< 1,925>	Less: Inventories at Cost		
\$286,575	Total Net Current Assets	\$286,575 / \$192,979 = 1.49% Quick Ratio	

An excerpt from the 2014 CAFR showing components of the Quick Ratio calculation is included below.

Austin Water Fund
Statement of Net Position
September 30, 2014
(in thousands)

	<u>September 2014</u>
ASSETS	
Current assets:	
Cash	5
Pooled investments and cash	21,827
Pooled investments and cash - restricted	96,206
Total pooled investments and cash	118,033
Investments, at fair value - restricted	90,175
Accounts receivable	70,088
Less allowance for doubtful accounts	(3,552)
Net accounts receivable	66,536
Due from other funds	301
Inventories, at cost	1,925
Prepaid expenses	17
Deferred costs and expenses, net of amortization	11,489
Other receivables - restricted	19
Total current assets	<u>288,500</u>
LIABILITIES	
Current liabilities:	
Accounts payable	4,498
Accounts and retainage payable from restricted assets	17,672
Accrued payroll	2,210
Accrued compensated absences	5,415
Accrued interest payable from restricted assets	49,327
Interest payable on other debt	21
Bonds payable from restricted assets	100,702
Customer and escrow deposits payable from restricted assets	10,008
Deferred credits and other liabilities	3,126
Total current liabilities	<u>192,979</u>

Austin Energy Financial Policy 10. "Austin Energy shall maintain a minimum quick ratio of 1.50 (current assets less inventory divided by current liabilities). The source of this information should be the Comprehensive Annual Financial Report (CAFR)."

A quick ratio of 1.50 indicates that an entity has \$1.50 of liquid assets available to cover each \$1.00 of current liabilities. For the Fiscal year ended September 30, 2014, Austin Energy's quick ratio was 2.79 and is illustrated below. This is up from the prior fiscal year primarily due to an increase in pooled investments and cash as well as a decrease in current bonds payable.

(Millions of \$)	CAFR Audited 9/30/2014
Current Assets	\$637,908
Less:	
Inventories	<u>(\$74,429)</u>
	\$563,479
Current Liabilities	\$201,725
Quick Ratio	2.79

On the following page are excerpts from the Fiscal Year 2014 CAFR showing components of the Quick Ratio calculation.

Austin Energy
Statement of Net Position
September 30, 2014
(in thousands)

ASSETS

Current assets:

Cash	20
Pooled investments and cash	150,780
Pooled investments and cash - restricted	<u>103,607</u>
Total pooled investments and cash	254,387
Investments, at fair value - restricted	56,217
Cash held by trustee - restricted	-
Working capital advances	4,602
Accounts receivable, net of allowance	177,427
Receivables from other governments-restricted	3,944
Due from other funds	687
Inventories, at cost	74,429
Regulatory assets, net of accumulated amortization	46,957
Prepaid expenses	6,788
Other receivables - restricted	2,190
Other assets	<u>10,260</u>
Total current assets	<u>637,908</u>

LIABILITIES

Current liabilities:

Accounts payable	66,991
Accounts and retainage payable from restricted assets	8,529
Accrued payroll	4,353
Accrued compensated absences	10,067
Claims payable	-
Due to other funds	-
Accrued interest payable from restricted assets	23,584
Interest payable on other debt	3
Bonds payable	-
Bonds payable from restricted assets	48,053
Capital lease obligations payable	46
Customer and escrow deposits payable from restricted assets	27,295
Accrued landfill closure and postclosure costs	-
Other liabilities	4,666
Other liabilities payable from restricted assets	<u>8,138</u>
Total current liabilities	<u>201,725</u>